Economic trends

There are now clear signs that the pronounced global downturn has levelled off. GDP in the US and the euro area fell considerably less in the second quarter than in the preceding quarters, and in parts of Asia growth has begun to pick up again. A counter-cyclical policy is being pursued in most countries, and this has contributed to the improvement that appears to be taking place in the global economy. There is less uncertainty in financial markets. Risk premiums have fallen. Equity prices in the US and the euro area have risen by about 50 per cent since bottoming out at the end of 2008, but are still appreciably lower than the peak in 2007. Expectations surveys indicate that the business sector and households are somewhat less pessimistic than previously. Housing markets in many countries also show clear signs that the recession may be coming to an end.

After a cyclical downturn lasting more than a year, the Norwegian economy is now in recession. Although mainland output increased in the second quarter according to preliminary quarterly national accounts (QNA) figures, growth remained clearly weaker than trend. An important factor contributing to the output turnaround is that the fall in household consumption has halted, partly as a result of lower interest rates and an expansionary credit policy. At the same time, general government expenditure is increasing sharply as a result of a more expansionary fiscal policy.

Despite the sharp cyclical downturn through the winter, unemployment has not increased much in Norway. According to Statistics Norway's Labour Force Survey (LFS), unemployment is unlikely to exceed 3.5 per cent in 2009. Unemployment in Norway has increased less than in surrounding countries, which are also affected by the financial crisis. There are several reasons for this. Norway's counter-cyclical policy is stronger than that in the euro area. Norwegian households probably do not expect a fiscal policy reversal in the form of tax increases in the near future. This may make fiscal policy more effective as a counter-cyclical measure in Norway. The petroleum sector now appears to having a stabilising effect on the Norwegian economy in the short term. Finally, the financial crisis caused a rapid weakening of the krone against the euro. This has eased the pressure on the internationally exposed business sector compared with euro area countries. The last upturn saw a sharp rise in labour migration into Norway. Many immigrants have been working on short-term contracts, and return to their home countries when the downturn comes. Unemployment therefore increases less than if they had been living permanently in Norway. The increased numbers opting for higher education, which is typical of a Norwegian downturn, also reduces the labour supply and hence unemployment in the short term.

However, the depreciation of the krone has contributed to appreciably higher underlying consumer price inflation in Norway than among our trading partners. The inflation rate has nonetheless remained close to the inflation target since the autumn of 2008. Somewhat lower inflation may be expected in the period ahead.

Although the pessimism surrounding developments both in Norway and abroad has now lessened, it is too early to regard the financial crisis as over. For the positive developments of recent months to continue, the effects of existing measures must gather momentum through businesses and households making a greater contribution themselves to kindling economic growth. Our projections are based on the assumption that global growth will pick up somewhat in the period ahead, albeit not as much as in a traditional cyclical upturn. This will lead to a gradual increase in output through 2010. However, as a result of continued weak investment in Norway coupled with a high cost level and a gradually stronger krone, manufacturing companies are not receiving strong enough impulses to generate any substantial growth in the period ahead. The uncertainty surrounding global economic developments is illustrated in a separate analysis.

Economic policy is promoting consumption growth, and growth in the mainland economy will pick up somewhat through 2010. When the fall in housing investment comes to a halt next year, the slowdown in the building industry will level off. Mainland GDP growth is projected to rise gradually to trend or higher in 2011. Our projections therefore show the business cycle in Norway bottoming out at the end of 2010/beginning of 2011, but that GDP will remain below trend through 2012. The significance of fiscal policy for developments is analysed separately.

Cyclical developments in Norway

After a cyclical downturn lasting more than a year, the Norwegian economy is now in recession. Although the fall in mainland output came to a halt in the second quarter according to preliminary quarterly national accounts (QNA) figures, growth remained clearly weaker than trend. This holds true even if the temporary decline in power production is excluded. Mainland gross investment excluding general government spending continues to fall, as do exports of traditional goods, but at an appreciably slower pace. The important factors behind the output turnaround are the halt in the fall in household consumption coupled with the sharp increase in general government spending as a result of the shift in fiscal stance in the first half of the year. The turnaround in consumption is also due to a more expansionary monetary policy in the form of low interest rates and an increased supply of liquidity to banks. Credit growth has fallen sharply nonetheless, primarily as a result of the slowdown in economic activity, but probably also because of more restrictive lending by banks.

Table 1. **Macroeconomic indicators 2007-2009. Growth from previous period unless otherwise noted. Per cent**

	2007*	2008*	Seasonally adjusted			
			08:3	08:4	09:1	09:2
Demand and output						
Consumption in households etc.	6.0	1.4	-0.9	-0.7	-0.4	0.6
General government consumption	3.4	3.8	1.0	1.4	1.4	2.0
Gross fixed investment	8.4	3.9	1.3	0.2	-5.0	0.1
Mainland Norway	9.3	2.4	0.9	-1.6	-7.7	0.9
Extraction and transport via pipelines	5.5	6.6	2.8	5.2	10.2	-5.8
Final domestic demand from Mainland Norway1	6.0	2.2	-0.1	-0.4	-1.4	1.0
Exports	2.5	1.4	-2.9	2.4	-5.6	-2.9
Crude oil and natural gas	-2.6	-1.5	-5.9	6.8	-3.4	-4.7
Traditional goods	8.7	4.8	0.0	-3.3	-9.0	-0.2
Imports	7.5	4.4	0.5	-4.3	-10.3	2.2
Traditional goods	6.7	2.7	-1.2	-5.2	-7.9	1.2
Gross domestic product	3.1	2.1	-0.9	0.4	-0.8	-1.3
Mainland Norway	6.1	2.6	0.1	-1.0	-1.3	0.3
Labour market						
Man-hours worked	4.4	3.4	0.4	-0.4	-0.9	0.0
Employed persons	4.1	3.1	0.5	-0.3	-0.4	0.0
Labour force[2]	2.5	3.4	0.2	0.4	0.0	0.3
Unemployment rate, level[2]	2.5	2.6	2.4	2.8	3.1	3.1
Prices and wages						
Wages per standard man-year[3]	5.6	5.8	6.1	6.1	5.4	4.7
Consumer price index (CPI)[3]	0.8	3.8	4.7	3.6	2.4	3.1
CPI adjusted for tax changes and excluding energy products (CPI-ATE)[3]	1.4	2.6	2.9	2.9	2.8	3.0
Export prices, traditional goods	2.5	2.3	6.6	-5.2	-5.5	-0.9
Import prices, traditional goods	3.7	3.2	2.4	-1.1	-0.6	-1.7
Balance of payment						
Current balance, bill. NOK	362.3	496.4	122.5	144.0	74.8	95.5
Memorandum items (unadjusted level)						
Money market rate (3 month NIBOR)	5.0	6.2	6.6	6.0	3.5	2.5
Lending rate, banks[4]	5.7	7.3	7.6	7.5	6.3	4.9
Crude oil price NOK[5]	422.2	536.4	624.9	385.3	313.4	386.8
Importweighted krone exchange rate, 44 countries, 1995=100	90.8	90.8	89.1	98.4	96.1	95.1
NOK per euro	8.02	8.22	8.06	8.92	8.95	8.84

[1] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[2] According to Statistics Norway›s labour force survey (LFS).
[3] Percentage change from the same period the previous year.
[4] Period averages.
[5] Average spot price, Brent Blend.
Source: Statistics Norway and Norges Bank.

The effects of this economic policy can be expected to be even more pronounced in the second half of 2009, causing growth in mainland GDP to increase somewhat. However, weak developments in exports and investment are likely to curb growth for several quarters to come.

Despite the sharp cyclical downturn through the winter, unemployment has not increased much. Unemployment in 2009, measured by Statistics Norway's Labour Force Survey (LFS), is unlikely to exceed unemployment in 2006, which was just under 3.5 per cent. Developments in Norway are distinctly different from those in surrounding countries that are also affected by the financial crisis. There are several reasons for this. The orientation of economic policy, with emphasis on measures to stimulate output and employment, is mitigating the increase in unemployment. Inward labour migration increased sharply during the economic boom, and has increased the flexibility of the labour market. Many immigrants have worked on short-term contracts, and they return to their home countries when the downturn comes, thereby countering the increase in unemployment. Another factor is the increased number opting for higher education, which is typical of a downturn, and which was facilitated through increased allocations to universities and colleges in the Revised National Budget (RNB) this spring. Norway also has greater freedom of manoeuvre in fiscal policy than other countries, even within the framework of the self-imposed fiscal rule. Petroleum activities have also given the Norwegian economy a stabilising element virtually without parallel in other OECD countries.

In autumn 2008, the financial crisis caused a sharp depreciation of the krone. This eased the pressure on the internationally exposed business sector, but could not entirely compensate for the fall in demand in global markets. As a result of the weakened krone, however, underlying consumer price inflation has been appreciably higher in Norway than among trading partners. The inflation rate has nonetheless remained close to target since autumn 2008, though somewhat lower inflation may be expected in the period ahead. A floating exchange rate has contributed to mitigating the effect of the international financial crisis, since Norges Bank does not have to defend a nominal exchange rate target. The flexibility of both monetary and fiscal policy is thus countering the effects of the global economic recession on the Norwegian economy.

Although the pessimism colouring developments both in Norway and globally has lifted somewhat in the course of the summer, it is still too early to dismiss the financial crisis as over. Many unsolved economic problems remain, particularly in other countries. Banks have large unrealised losses, and government debt in many countries is growing so rapidly that their current fiscal policy is not sustainable. For the positive developments of recent months to continue, either the effects of existing measures must become stronger or the behaviour of businesses and households must make a greater contribution to kindling economic growth. Should the effect of the crisis measures prove to be transitory, it appears likely that growth worldwide will be very weak for several quarters to come. This will have negative consequences for the Norwegian economy.

However, we assume in our projections that global growth will pick up somewhat in the immediate future, but not to an extent that corresponds to a traditional cyclical upturn. Even a moderate upturn will generate positive impulses to the export-oriented business sector, in the form of both increased demand and higher prices in the world market. This will cause the fall in manufacturing production to slow gradually through 2010. However, continued weak investment developments in Norway coupled with a high cost level and gradually strengthened krone mean that manufacturing companies are not receiving strong enough impulses to stimulate any substantial growth in the period ahead.

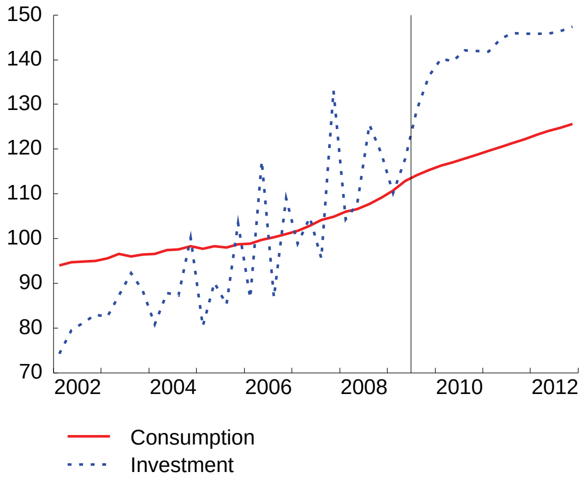
Economic policy will boost consumption growth, and growth in the mainland economy will pick up somewhat through 2010. When the fall in housing investment comes to a halt next year, the slowdown in the building industry will level off. Mainland GDP growth is projected to rise to trend or higher in 2011, and to be paralleled by a certain tightening of monetary policy. Thus our projections indicate that the cyclical trough will be reached at the end of 2010, but that the level of mainland GDP will remain below trend throughout the projection period up to and including 2012.

Expansionary fiscal policy

Fiscal policy for 2009 was made considerably more expansionary in the wake of the submission to the Storting of Proposition no. 37 (2008-2009) *Changes in the Government Budget for 2009 with measures to secure employment*. The reason for the shift in fiscal stance was a substantially weaker outlook for the Norwegian economy than that forming the basis for the National Budget in autumn 2008. The changes in fiscal policy also meant increased allocations to both consumption and investment in addition to revisions of some tax programmes. The Government estimated in the RNB that the orientation of fiscal policy would generate a budgetary impulse of 3 per cent of mainland GDP from 2008 to 2009, the strongest since the 1970s. In addition to substantial interest rate cuts, there have also been a number of stimulus packages targeting the banking and credit sector. The shift in fiscal stance in 2009 has thus been unusually strong.

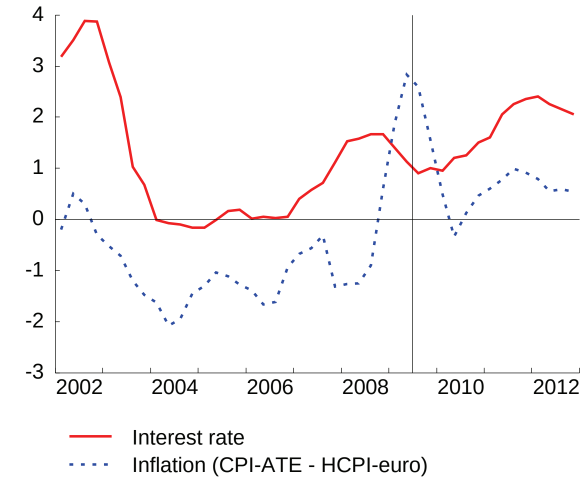
Preliminary QNA figures show strong and accelerating growth in general government spending, in accordance with the intention of the packages. Central government consumption has increased most. The effects of the packages on gross general government investment are

Figure 1. **General government. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Figure 2. **Interest rate and inflation differential between NOK and the euro. Percentage points**



Source: Norges Bank and Statistics Norway.

less evident in the QNA figures for the first half of the year. This is to be expected, because it takes somewhat longer to launch investment projects. We therefore expect investment growth to pick up appreciably in the second half of 2009.

Our projections for fiscal policy in the current year are based on the RNB figures for 2009. The structural, non-oil budget deficit for 2009 is projected there at approximately NOK 130 billion. This is almost NOK 39 billion higher than the figure following from the expected real return on the Government Pension Fund – Global at the beginning of 2009, equivalent to approximately 2 per cent of mainland GDP. The growth in general government spending on goods and services for consumption and investment purposes is now projected at just over 6.5 per cent in 2009, compared with 4 per cent in 2008. Growth in general government investment is projected at just over 12 per cent in 2009, and contributes to this increased growth. Transfers to households have increased substantially so far this year, partly as a result of higher unemployment benefit disbursements.

With prospects of continued weak economic growth in Norway, there is reason to expect that an expansionary fiscal policy will be maintained in 2010, but far less fiscal stimulus is expected than in 2009. We assume that there will be a certain shift in the composition of public sector spending towards greater emphasis on investment and somewhat less on consumption. This assumption is made on the grounds that investment activities require more time-consuming planning, and therefore cannot be implemented as rapidly as maintenance activities. The projections for 2010 are also influenced by the fact that from autumn 2009 and to the end of 2011 the Norwegian Armed Forces are to purchase new helicopters and transport aircraft for a total of almost NOK 10 billion. The Armed Forces will take delivery of their last frigate in 2010. We now assume that growth in general government investment will be as much as 11 per cent in 2010, while growth in consumption will be 3.5 per cent. We have revised growth in public purchases of goods and services in 2010 slightly downwards compared with the previous report. The reason for doing so is that developments in both the global and the Norwegian economy appear a little brighter than previously forecast.

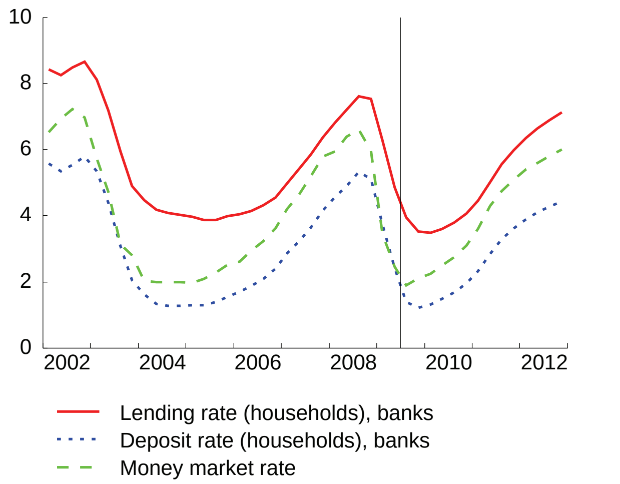
In 2011, general government spending on consumption and investment is expected to grow more in line with estimated trend growth in the Norwegian economy. Fiscal policy is expected to be tightened somewhat in 2012 as economic growth gathers pace again through 2011 and into 2012. The objective of bringing budget deficits into compliance with the fiscal rule also implies a somewhat tighter fiscal policy. However, the growth in the Government Pension Fund – Global is the reason that we forecast that the structural budget deficit will be back in line with the 4 per cent rule in 2012. Our assumptions are based on direct and indirect taxes adjusted for inflation throughout the period.

Interest rates have bottomed out

Norges Bank's setting of interest rates is aimed at stabilising inflation at 2.5 per cent while promoting stable developments in output and employment. Inflation measured by the 12-month change in the consumer price index adjusted for tax changes and excluding energy products (CPI-ATE) was exactly on target in July. However, output growth has fallen markedly this past year, and unemployment has increased. The crisis in financial markets worldwide and the sombre economic outlook have prompted Norges Bank to reduce the key policy rate sharply. We assume that the policy rate will gradually be raised again from December and through the projection period.

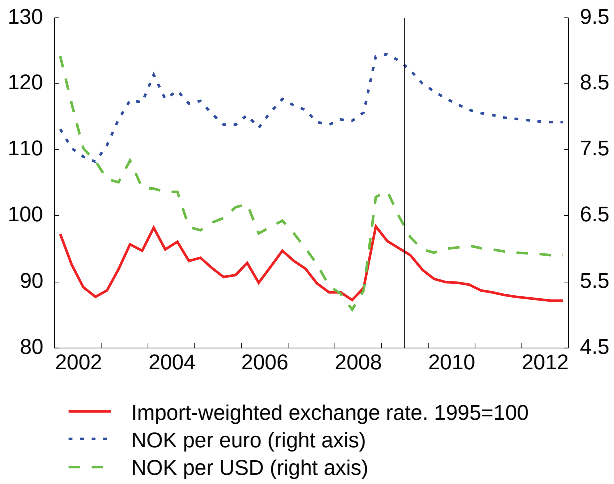
The financial crisis caused a widening of the difference between money market interest rates and the policy rate. Before the financial crisis, money market rates largely shadowed the policy rate with a premium of about 0.25 percentage point. For the past two years,

Figure 3. **Norwegian interest rates. Per cent**



Source: Norges Bank and Statistics Norway.

Figure 4. **Exchange rates**



Source: Norges Bank.

however, the premium has been substantially larger, and at the end of September 2008 it was over 2 percentage points. The policy rate has been 1.25 per cent since Norges Bank's monetary policy meeting in June, while at the end of August the money market rate was 2.0 per cent, such that the current interest rate premium is close to 0.75 percentage point. Norges Bank has thus reduced the key policy rate by a total of 4.5 percentage points since October 2008. Money market rates fell by almost 6 percentage points from the beginning of October 2008 to the end of August this year.

Norges Bank has also taken steps to strengthen banks' liquidity. The volume of Norges Bank's fixed rate loans (F-loans) has increased, the maturity of these loans has been extended and Norges Bank has eased the requirements concerning the collateral banks are required to provide in order to qualify for the loans. Last year the Storting additionally approved a scheme of loans of government paper to banks, against collateral in bonds, for up to NOK 350 billion. This year the Storting approved new measures with an upper limit of NOK 100 billion. Half of this amount is to be used to supply banks with Core Tier 1 capital, and the remainder to increase liquidity in the bond market through government purchase of corporate bonds. So far, more than NOK 210 billion of the NOK 350 billion in government paper has been lent out, while bonds have been bought for about NOK 6 billion of the NOK 50 billion that has been allocated. The deadline for applications from banks wishing to make use of the opportunity to increase their Core Tier 1 capital is the end of September, while disbursements will take place by mid-November at the latest.

The Norwegian krone depreciated strongly against the US dollar and the euro through the second half of 2008. Measured by the import-weighted krone exchange rate, where weights are based on the composition of Norwegian imports, the krone depreciated by over 15 per cent from June to December 2008. Much of this loss of value has been recouped since the end of 2008, and from December 2008 to August 2009 the import-weighted krone appreciated by almost 8 per cent.

Domestic credit growth, measured by 12-month growth in private and municipal sector debt (C2) was 6.4 per cent in July 2009. Credit growth in non-financial enterprises slumped from just over 20 per cent in July 2008 to 4.4 per cent in July this year. Household debt increased by 6.5 per cent from July 2008 to July 2009.

In view of the improving cyclical situation, as reflected in more rapidly rising house prices and household demand, we assume that Norges Bank will raise the policy rate in the period ahead. We believe that money market rates will remain at around 2 per cent in the second half of 2009, increase to somewhat over 3 per cent through 2010 and gradually move up to 6 per cent by the end of 2012. Banks' average lending rate will then end up at over 7 per cent by the end of the forecast period.

Interest rates in the euro area are expected to increase less than in Norway. Given a gradual normalisation of foreign exchange markets, we therefore expect the krone to continue to strengthen. In the projection scenario, the price of a euro declines to less than NOK 8.50 in the course of 2009, and drifts on down to NOK 7.90 at the end of 2012.

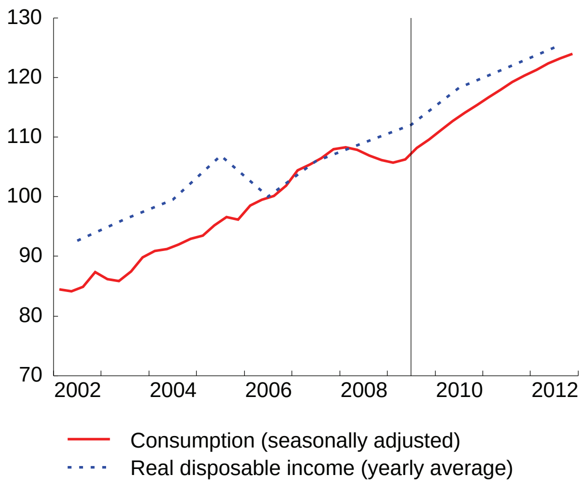
On an annual basis, the depreciation of the krone last autumn will outweigh the strengthening we expect this year. The krone will therefore weaken from 2008 to 2009 as an annual average. The weakening against the euro from 2008 to 2009 is projected to be about 6.5 per cent and the import-weighted krone exchange rate is projected to weaken by just under 4 per cent. In 2010 and 2011 the krone is projected to appreciate by about 4.5 per cent and 2 per cent, respectively, against the import-weighted currency basket.

Table 2. **Household real disposable income. Percentage growth**

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Totalt	3.6	7.6	-6.4	5.9	2.9	2.8	5.6	2.9	2.8
Exclusive dividends	2.7	3.5	4.2	4.8	3.1	3.7	5.6	2.5	1.8

Source: Statistics Norway.

Figure 5. **Income and consumption in households. Volume indices. 2006=100**



Source: Statistics Norway.

Consumption growth is rising fast

According to preliminary QNA figures for the second quarter of 2009, the consumption of households and non-profit organisations edged up 0.6 per cent, seasonally adjusted and compared with the previous quarter. The growth in consumption follows a decline through the four previous quarters, due largely to a fall in purchases of cars and weak developments in purchases of other groups of goods and services in the wake of the financial crisis. The sharp fall in car purchases since the end of 2007 was associated for a long time with high interest rates, unfavourable financial prospects generally, and uncertainty regarding own income. This decline has now come to a halt. An increase in car purchases in particular, but also in purchases of furniture, white goods, clothing and footwear as well as books and leisure equipment, contributed to a rise in goods consumption of as much as 1.2 per cent in the second quarter of 2009. Consumption of services increased more moderately, at 0.4 per cent, in the same period. The goods consumption index for July shows a 2.1 per cent increase on June when adjusted for normal seasonal variations, and points towards continued growth in household consumption in the third quarter of this year.

Growth in household real disposable income is expected to be just under 3 per cent this year, approximately the same as last year. Weaker growth in household wage income pushes income growth down, while substantially lower interest rates and almost a halving of consumer price inflation counter this effect. With more moderate income growth and some household financial consolidation, we expect consumption to edge up by an average of 0.4 per cent this year. Consumption growth has not been so weak since 1990. In 2010, very low inflation will contribute to growth in real disposable income of fully 5.5 per cent. At the same time, housing wealth will pick up through rising house prices and contribute to bringing consumption growth in 2010 more into line with growth in real income. More moderate growth in real disposable income, and hence also in household consumption, is expected through 2011 and 2012. Although the outlook for households improves after 2009, our projections imply weaker consumption and income growth compared with the growth through the last expansion.

In the projection scenario, the household saving rate will rise from just over 2 per cent last year to around 4.5 per cent this year and in 2010, and then fall gradually to just under 2.5 per cent in 2012. The higher saving level this year and continued falling housing investment is reflected in positive developments in household net financial investment. Household net financial investment will then increase from a negative level of around NOK 40 billion in 2008 to almost zero in 2009. In the last years of the projection period, net lending will fall again by about NOK 45 billion, concurrently with a decline in saving and a rise in housing investment.

From fall to rise in housing investment

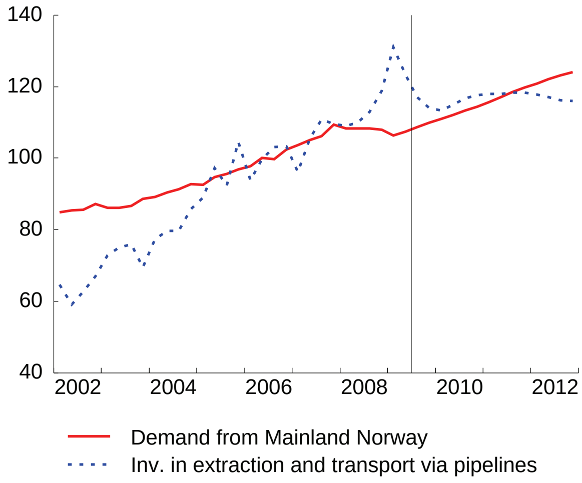
According to the preliminary seasonally adjusted QNA figures, housing investment dropped by a whole 4.7 per cent in the second quarter of this year. Housing investment has now fallen for eight consecutive quarters. Housing start statistics, the main basis for the QNA figures, show that the downward trend since the peak in the second quarter of 2007 continued through the first half of this year. Housing starts affect housing investment for several quarters ahead. The prospect of a more favourable economic situation with a further rise in house prices and low real interest rates implies that housing investment will level off and pick up again in 2010 and the remainder of the projection period. Thus housing investment in 2012 may approach the peak level in 2007.

According to Statistics Norway's house price index, which covers both owner-occupier and housing cooperative dwellings of all types, house prices fell sharply through the second half of 2008. Prices for detached houses, small houses and flats all dropped by about 10 per cent in the period from the second to the fourth quarter of 2008. So far this year, house prices have risen again, however. In the first and second quarters of

Figure 6. **Residential market. Left axis adj. indices. 2006=100. Right axis per cent**

Source: Statistics Norway.

Figure 7. **Domestic demand. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

2009, house prices increased by 4.1 per cent and 5.3, respectively, compared with the previous quarter, and in the second quarter this year were only 1.5 per cent lower than the peak level in the second quarter of 2008. Detached houses were the type of dwelling that showed the highest price rise in the second quarter of 2009 and were 5.7 per cent more expensive than in the first quarter of the year. Prices for flats and small houses rose by 4.9 and 4.5 per cent, respectively, in the same period. Flats cost the same on average as in the second quarter of 2008, while detached houses and small houses cost approximately 2 per cent less. We now expect house prices as a whole to continue edging up through the second half of the year, and as an annual average to rise by around 2 per cent from 2008 to 2009. House prices will continue to rise through the last years of the projection period, with nominal growth rates of around 6 per cent, in pace with an improved economic situation.

Petroleum investment will remain high for a long time to come

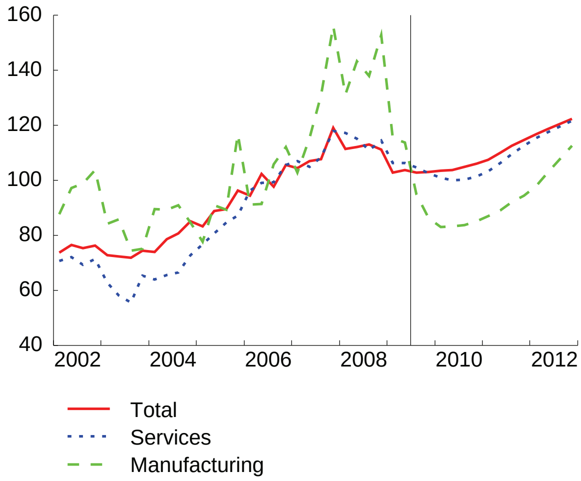
Following strong growth in petroleum investment through the winter of 2009, preliminary QNA figures for the second quarter of the year show that growth in petroleum investment has come to a halt. From the first to the second quarter of this year, overall petroleum investment fell by 5.8 per cent, adjusted for normal seasonal variations. This is largely due to lower activity in exploration and production drilling, where there was substantial investment growth through the winter. Despite the fall in the second quarter, petroleum investment remains high and thus makes an important contribution to buoying up the mainland economy.

The second quarter fall in investment should be viewed in light of the strong increase through the winter of 2009. The high petroleum investment in autumn 2008 and the first quarter of this year pushed the investment level in the first half of 2009 up almost 17 per cent higher than in the first half of last year. With the exception of onshore investment, where activity has been sluggish in recent years, all types of investment have shown strong growth through the past year. Investment in exploration and production drilling increased by 8 per cent from the second quarter of 2008 to the second quarter of 2009, while investment in platforms, drilling rigs and modules increased by just over 12 per cent during the same period.

The investment projections are shrouded in uncertainty. Prices for both oil and important factor inputs have fluctuated widely, and there is considerable uncertainty regarding future price developments. This influences decisions to invest in the industry. On the one hand, the two major projects, Skarv and Gjøa, along with several smaller, already launched projects, will contribute to maintaining investment in platforms, drilling rigs and modules at a high level in 2010. On the other, we expect some of the planned development projects to be postponed. The Norwegian Petroleum Directorate (NPD) also reports that the number of spudded production wells fell from the first to the second quarter of this year, which indicates that the high drilling activity in the first half of the year may not be maintained. Both these factors will result in substantially less investment than in the first half of the year.

Although we expect weak developments in petroleum investment this coming year, the level remains high, and is expected to remain so throughout the projection period. Our projection for petroleum investment in 2009 implies annual growth from 2008 to 2009 of over 5 per cent. We assume that oil prices will stabilise at around USD 65-70 per barrel in the course of 2010. With an oil price as high as this, investment can be expected to pick up somewhat. More discoveries are constantly being made in mature areas of the North Sea, and these, coupled with the awards in the 20th licensing round, will ensure a high level of drilling activity up to 2012. A number of small developments

Figure 8. **Investment, Mainland Norway. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

are also contributing to holding overall investment up throughout the projection period.

In contrast to petroleum investment, petroleum production so far this year has been substantially lower than in the same period in 2008. NPD reports a year-on-year fall in total production of 4.1 per cent to the second quarter of 2009. Gas production is still increasing, but the over 3 per cent growth in gas production was not sufficient to offset the 8.8 per cent fall in oil production. A planned shutdown of the Snøhvit facility at Melkøya Island is scheduled for the third quarter. This, combined with the weak second quarter production, means that overall petroleum production in 2009 will be somewhat lower than in 2008. We expect gas production to increase in the period ahead, while oil production will continue falling. The increase in gas production will not fully compensate for the reduction in oil production, so there will be a gradual decrease in overall production, measured in oil equivalents, through the projection period.

Investment near bottom in 2010

From 2003 to 2008, mainland business investment increased by just over 80 per cent, which is equivalent to average annual growth of more than 12.5 per cent. However, the seasonally adjusted QNA figures show that this investment fell quite substantially through 2008 and into 2009. By contrast, in the second quarter of 2009 mainland business investment showed a 1.1 per cent increase on the previous quarter. This is a marked change compared with the previous quarter, when investment fell by 9.8 per cent. Investment in manufacturing, mining and services fell slightly from the first to the second quarter, but increased by over 8 per cent in other goods production.

Statistics Norway's investment intentions survey points to a continued clear decline in manufacturing investment. The survey implies a fall in manufacturing investment of up to 30 per cent this year and a further 10-20 per cent in 2010. Investment in the power supply sector may fall by 5 per cent this year. However, investment in the sector looks set to rise by an estimated 30 per cent next year as a result of large-scale investment in both production and distribution of electricity. In addition comes a sharp increase in investment in district heating, both in combustion facilities and in distribution. This is largely a consequence of the ban on depositing degradable waste.

Our projections for manufacturing investment this year and next are based on the investment intentions survey. We expect manufacturing investment in 2010 to be lower than in 2004. A more favourable economic situation and normalisation of credit markets are expected to contribute to a rise in manufacturing investment of over 8 per cent in 2011 and almost 16 per cent in 2012.

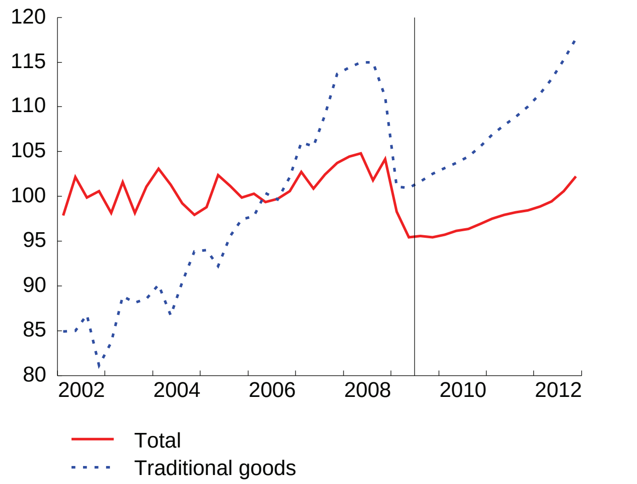
For mainland industry as a whole, we project an annual average fall in investment of approximately 12.5 per cent this year and a further decline of about 4.5 per cent in 2010. This decline in investment is appreciably smaller than projected in our previous report. The decline in investment in relation to 2008 is equivalent to approximately 1½ per cent of mainland GDP, which indicates that the cut in investment has been an important factor in the economic downturn. Mainland business investment as a whole is also expected to resume growth a little way into 2010. The increase will first be reflected in an annual average in 2011, and will be strengthened in 2012. Despite solid growth in 2011 and 2012, investment in mainland industries in 2012 will remain lower than the level in 2008.

Turnaround in exports of traditional goods

Exports of traditional goods have fallen since the second quarter of 2008. The fall was sharp in the first quarter, but in the second quarter of this year exports of traditional goods only edged down 0.2 per cent compared with the previous quarter, according to seasonally adjusted QNA figures. Important industrial commodities such as metals, industrial chemicals and chemical and mineral products have driven these developments to a large extent. Exports of these products slumped in the first quarter of this year, but rose the following quarter. Overall exports fell by 2.9 per cent from the first to the second quarter. The decline is attributable to a 4.7 per cent fall in exports of crude oil and natural gas. Exports of services, on the other hand, rose during the same period. An increase in gross freight exports in shipping is the primary cause of the increase in exports of services.

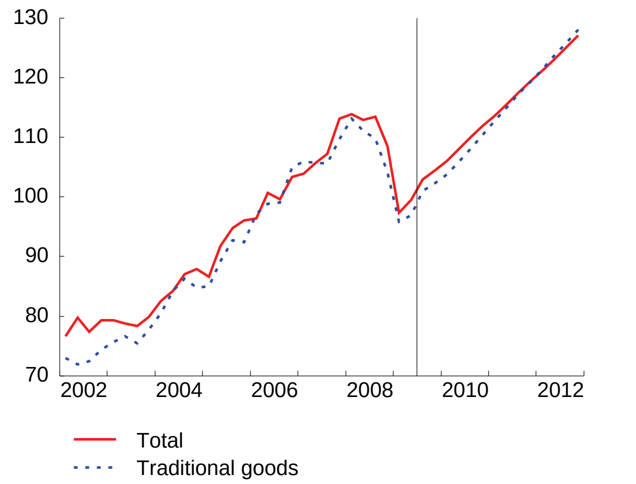
Prices for traditional export goods declined by only 0.9 per cent from the first to the second quarter, following a pronounced fall in previous quarters. This can be attributed to the marked rise in prices for refined oil products in the second quarter – a reversal following the steep fall through the previous six months. Prices

Figure 9. **Exports. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Figure 10. **Imports. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

for overall exports have followed the same pattern. The underlying factors are a 3.6 per cent fall in prices for oil and natural gas combined, while a 3.8 per cent increase in prices for services provides a countering effect.

We assume that demand impulses from export markets will be weakly positive in the second half of 2009. These impulses are expected to gradually increase in strength in 2010 and thereafter. Exports of traditional goods are therefore expected to increase slightly in the second half of 2009. The weak developments in the first half of the year are dominating developments, however, and an annualised fall in exports of traditional goods of almost 11 per cent is projected. Next year, increased demand from our most important trading partners will cause exports to rise by about 3 per cent on an annual basis. This tendency will continue for the next couple of years, and growth in exports of traditional goods will top 5 per cent in 2012. Improved cost competitiveness will moderate the fall in exports to some extent this year, because the krone exchange rate is expected to be weaker on an annual basis than in 2008. From 2010 onwards the krone is expected to appreciate, which will erode cost competitiveness and push down export growth.

Oil exports are expected to fall throughout the projection period, while gas exports are expected to increase. A clear fall in oil exports will reduce combined oil and natural gas exports by almost 6 per cent this year. The decline in oil exports will also be greater than the increase in gas exports when developments in the next three years are viewed as a whole. Exports of services are expected to fall by about 10 per cent this year. Growth is expected to gradually gather pace in the years ahead and exceed 5 per cent in 2012. Total exports will therefore fall less than traditional goods exports this year. In the years ahead, total exports are projected to grow slightly.

Increased imports through 2010

The cyclical downturn has caused a considerable decline in imports. The seasonally adjusted reduction from the third quarter of 2008 to the second quarter of 2009 was a full 12.3 per cent. Lower investment and a decline in car purchases were important factors underlying the decline. This trend has been reversed, and in the second quarter imports increased by 2.2 per cent on the previous quarter before adjustment for normal seasonal variations. The increase in imports must be seen in light of increased car purchases by households.

Lower global market prices for metals, particularly through the last half of 2008, and the appreciation of the krone since the end of 2008, have caused prices for traditional goods imports to fall since the fourth quarter of 2008. In the second quarter of 2009, prices for traditional goods were 1.7 per cent lower than in the previous quarter.

In the years ahead, increased domestic demand, particularly investment and car purchases, will lead to a sharp rise in import growth. Weakened cost competitiveness, partly due to the fact that the import-weighted krone exchange rate will strengthen in the years ahead, will contribute to import growth increasing relatively more than growth in the mainland economy.

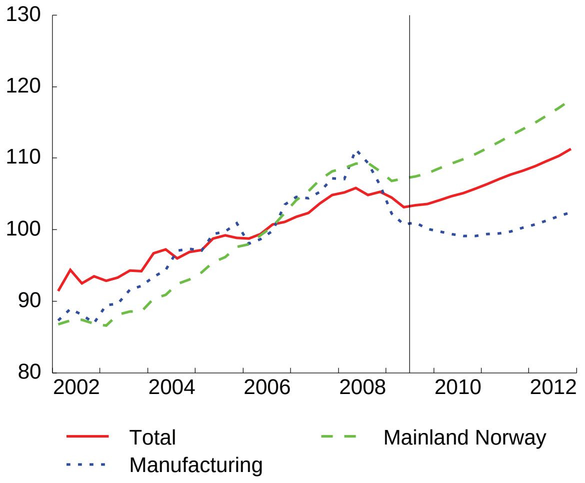
The Armed Forces' purchases of helicopters, aircraft and frigates will make a positive contribution to imports for the next few years. The Armed Forces have ordered 14 new helicopters and 4 new Hercules aircraft for a total of approximately NOK 9.5 billion. The first helicopter is expected to be delivered in the third quarter of 2009, while the aircraft are expected to be imported in the period up to and including 2011. The Armed Forces will officially take delivery of the frigate *KNM Helge Ingstad* in autumn 2009, while the last frigate, *KNM Thor Heyerdahl,* is to be imported in 2010.

Table 3. **Main economic indicators 2008-2012. Accounts and forecasts. Percentage change from previous year unless otherwise noted**

	Accounts 2008	Forecasts									
		2009			2010			2011		2012	
		SN	MoF	NB	SN	MoF	NB	SN	NB	SN	NB
Demand and output											
Consumption in households etc.	1.4	0.4	0.0	-1/4	5.4	..	5 1/4	4.6	4	3.5	2 1/2
General government consumption	3.8	5.7	5.7	5 3/4	3.5	..	3 3/4	3.0	..	2.9	..
Gross fixed investment	3.9	-5.9	-6.3	..	-0.2	..	..	4.5	..	6.6	..
Extraction and transport via pipelines[1]	6.6	5.5	5.5	5	-1.8	..	0	1.5	2 1/2	-1.3	5
Mainland Norway	2.4	-7.8	-9.3	-13	0.9	..	-6 3/4	7.0	..	7.2	..
Industries	6.8	-12.5	-16.1	..	-4.4	..	..	6.7	..	9.8	..
Housing	-8.1	-13.6	-12.0	..	2.3	..	..	10.6	..	9.7	..
General government	5.8	12.0	12.3	..	10.7	..	..	3.9	..	-0.1	..
Demand from Mainland Norway[2]	2.2	0.1	-0.4	-1 1/4	4.1	..	2 3/4	4.6	4 1/2	4.0	3 1/4
Stockbuilding[3]	0.1	-0.9	..	..	0.0	..	..	0.0	..	0.0	..
Exports	1.4	-7.5	-5.3	..	0.5	..	..	2.1	..	1.6	..
Crude oil and natural gas	-1.5	-5.6	-4.5	..	-1.7	..	..	0.8	..	-1.5	..
Traditional goods[4]	4.8	-10.6	-7.3	-9 1/2	2.7	..	1/4	4.2	..	5.2	..
Imports	4.4	-8.8	-2.4	-6 3/4	6.6	..	1/2	6.8	..	6.4	..
Traditional goods	2.7	-8.8	-4.0	..	6.7	..	..	8.6	..	7.4	..
Gross domestic product	2.1	-1.6	-1.9	-1 1/2	1.4	..	2 1/4	2.5	3 1/4	2.3	2 3/4
Mainland Norway	2.6	-1.2	-1.0	-1 1/2	2.1	3/4	2 1/2	2.9	3 1/2	3.2	3
Labour market											
Employed persons	3.1	-0.5	-1.0	-1/2	-0.6	-1 1/2	-1/2	0.7	3/4	1.5	1
Unemployment rate (level)	2.6	3.3	3 3/4	3 1/2	3.9	4 3/4	4 1/2	4.0	4	3.8	3 3/4
Prices and wages						..					
Wages per standard man-year	5.8	4.0	4.0	4	3.7	..	3 3/4	3.7	4 1/4	4.2	4 3/4
Consumer price index (CPI)	3.8	1.9	1.8	2 1/4	0.9	..	1 3/4	2	2 1/4	2.6	2 1/2
CPI-ATE[5]	2.6	2.4	2.4	2 1/2	0.9	..	1 3/4	1.8	2 1/4	2.4	2 1/2
Export prices, traditional goods	2.3	-6.5	-3.9	..	-0.8	..	..	5.7	..	5.1	..
Import prices, traditional goods	3.2	-1.8	0.2	..	-3.4	..	..	2.1	..	2.7	..
Housing prices	-1.1	2.2	..	..	6.2	..	..	6.1	..	6.1	..
Balance of payment									..		..
Current balance (bill. NOK)	496.4	322.8	231	..	274.6	..	..	297.0	..	329.2	..
Current balance (per cent of GDP)	19.5	13.4	9.8	..	11.1	..	..	11.3	..	11.8	..
Memorandum items:									..		..
Household savings ratio (level)	2.0	4.6	5 1/4	..	4.5	..	..	2.9	..	2.3	..
Money market rate (level)	6.2	2.5	3.0	2.5	2.7	2.8	2.3	4.4	3.4	5.7	4.3
Lending rate, banks (level)[6]	7.3	4.7	..	..	3.7	3.7	..	5.3	..	6.8	..
Crude oil price NOK (level)[7]	536	379	350	..	387	402	..	440	..	495	..
Export markets indicator	1.6	-10.0	..	..	1.6	..	..	4.1	..	7.8	..
Importweighted krone exchange rate (44 countries)[8]	0.0	3.8	4.2	5 3/4	-4.6	..	-1	-1.9	0	-1.0	0

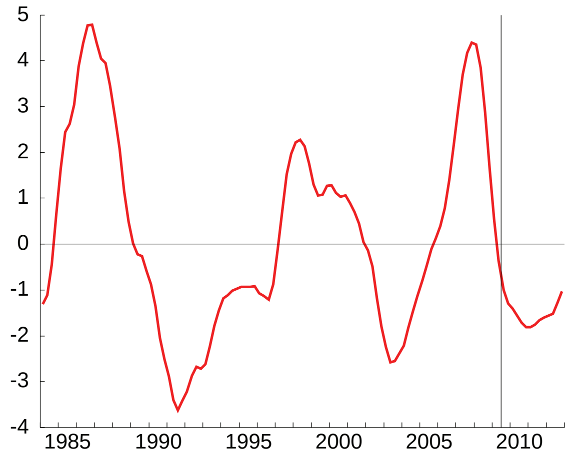
[1] Forecasts from Ministry of Finance incl. service activities incidential to extraction.
[2] Consumption in households and non-profit organizations + general government consumption + gross fixed capital formation in Mainland Norway.
[3] Change in stockbuilding. Per cent of GDP.
[4] Norges Bank estimates traditional exports, which also includes some services.
[5] CPI adjusted for tax changes and excluding energy products (CPI-ATE).
[6] Yearly average.
[7] Average spot price, Brent Blend.
[8] Increasing index implies depreciation. Ministry of Finance forecasts trade-weighted exchange rate.
Source: Statistics Norway (SN), Ministry of Finance, St.meld. nr. 2 (2008-2009), (MoF), Norges Bank, Pengepolitisk rapport 2/2009 (NB).

Figure 11. **Gross domestic product. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Figure 12. **Output gap, Mainland Norway. Deviation from trend, per cent**



Source: Statistics Norway.

We project a fall in prices for traditional import goods through the next two years as a result of the international recession. The expected appreciation of the import-weighted krone exchange rate from the current relatively weak level will also contribute to the decline in import prices.

Mainland GDP rising again

After almost five years of higher than trend mainland GDP growth, a pronounced turnaround occurred in 2008. Growth fell sharply as early as in the first quarter last year. When the financial crisis hit the economy with full force at the end of the third quarter, growth came almost to a halt. Through the following two quarters, mainland GDP declined by fully 2.7 per cent. The most recent QNA figures show that this sharp downturn was considerably moderated this spring. Mainland GDP edged up 0.3 per cent from the first to the second quarter. There were also signs of increased activity in mainland industry excluding general government. However, business sector developments varied very considerably from one industry to the next.

Activity in all the main business areas slowed from the third to the fourth quarter of 2008 and again to the first quarter of 2009. Value added in manufacturing and other goods production through this half year fell almost 7 per cent, while private sector production of services slid by just over 1 per cent. In the second quarter of the year, the decline in production of other goods continued steadily, while the fall in manufacturing production slowed somewhat. In private services, on the other hand, the most recent QNA figures show a pronounced turnaround in the second quarter, with a clear increase in activity.

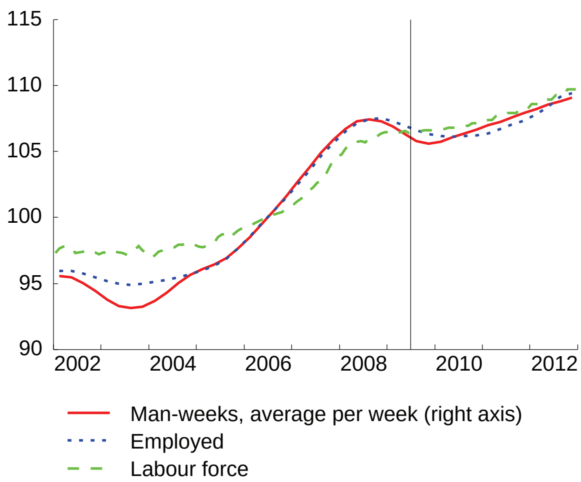
The global economic downturn has been the main force driving developments in manufacturing production, and the most pronounced decline has occurred in industries that are primarily export-oriented. The weak developments in building and construction also contributed to a long-term, and as time went on, very sharp fall in production in the wood and wood products industry. However, in the latter industry a decline of a full 20 per cent in the first quarter gave way to an upswing of 16 per cent in the second quarter. An increase in petroleum investment has boosted activity in the shipbuilding industry, including oil platforms, but other mainland industries have also benefited from these impulses through the downturn. However, the most recent QNA figures show a slight fall in petroleum investment from the first to the second quarter, and in the second quarter, for the first time in a long period, there was a decline in building of ships and oil platforms.

Prospects of increased activity internationally point to somewhat more positive production developments in export-oriented activities. The re-opening of some smelters and the launch of new solar energy companies may lead to a marked increase in production in some industries in the current half year. However, impulses generated by petroleum activities may have the opposite effect. Developments in Norwegian costs, with relatively high wage growth and a stronger krone, will have a negative effect on manufacturing production in the period ahead.

In the latter part of 2010 and thereafter, mainland investment demand will also stimulate production in both manufacturing and construction. However, we assume that petroleum investment will not generate any growth impulses during the projection period. In consequence, value added in manufacturing is not expected to increase appreciably before 2012, i.e. well into the global recovery. We assume that developments in domestic demand will cause growth in business sector activity as a whole to continue to gather pace.

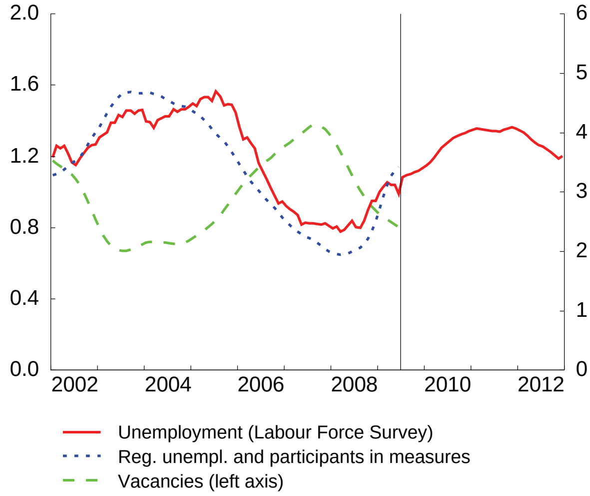
General government value added increased by just over 1 per cent through the first half of the year. Growth in

Figure 13. **Labour force, employment and number of manhours. Seasonally adjusted and smoothed indices. 2006=100**



Source: Statistics Norway.

Figure 14. **Unemployment and number of vacancies. Seasonally adjusted and smoothed. Per cent of labour force**



Source: The Norwegian Labour and Welfare Service and Statistics Norway.

public consumption was far higher than this, reflecting strong growth in general government purchases of goods and services from the business sector. Growth in general government production is expected to be appreciably higher than business sector growth in 2009 and 2010 and thus contribute to pushing up GDP growth. Despite this factor and prospects of business sector production growth through the current half year, mainland GDP is projected to fall by 1.2 per cent as an annual average from 2008 to 2009. After this, growth is expected to pick up gradually. In our projection, the growth rate will pass trend growth early in 2011, but precisely when is uncertain. On the other hand, we can say with great certainty that mainland GDP will remain below trend until far out in the projection period – possibly the whole period. But it does not appear now as though the recession will be very deep.

Lower inward labour migration and fewer young people in the labour market

The current cyclical downturn started as far back as early 2008. However, seasonally adjusted LFS unemployment remained relatively stable at about 2.5 per cent right up to October last year. After that, unemployment increased steadily, reaching 3 per cent in January and subsequently stabilising at a little over this level. In June, however, unemployment fell by 4 000 persons to approximately 77 000, equivalent to an unemployment rate of 3 per cent.

The Norwegian Labour and Welfare Administration publishes seasonally adjusted registered unemployment figures every month. Registered unemployment is normally lower than LFS unemployment, as LFS also picks up persons who wish to work, but who have not registered with the Labour and Welfare Administration as work-seekers. The number registered as fully unemployed is still rising slightly. Seasonally adjusted unemployment increased by about 700 persons in both July and August. By way of comparison, unemployment increased by an average of around 4 500 persons per month early in the year.

Seasonally adjusted QNA figures show that employment remained approximately unchanged in the second quarter of 2009. This followed two quarters of falling employment, and thus confirms the picture of a labour market that is not deteriorating as much as previously. Employment in manufacturing and construction was still falling, but at a more moderate pace than in the first quarter. At the same time, employment in general government and in commercial services climbed. Seasonally adjusted figures revealed 16 000 fewer employed in Norway in the second quarter of this year than in the third quarter of 2008, when employment peaked.

Inward labour migration to Norway has increased substantially in recent years. The number of valid work permits increased more than eight-fold from 2004 to 2008. With the cooling of the Norwegian economy and a weaker labour market, this trend has reversed. As at 1 August this year, just over 101 000 work permits had been issued as against nearly 108 000 at the same time last year. However, there is substantial uncertainty associated with the number of labour migrants. Among other things, no work permit is required for work that lasts for less than three months. Nordic citizens are also exempt from the work permit requirement. On the other hand, there are probably many persons with valid work permits who have either not come to Norway or who have left the country. On balance, there is little doubt that net inward labour migration to Norway is at a substantially lower level than previously. It must be borne in mind that a large share of labour migrants are employed in the construction industry and in manufacturing, where unemployment has risen most.

The younger age groups tend to have little education or job experience compared with others in the labour force. As a result, they are often affected when unemployment increases. The rise in unemployment has also caused many young people to leave the labour force, probably in favour of education. The labour force participation rate for women in the age group 16-24 fell by 3.3 percentage points from the second quarter of 2008 to the second quarter this year. The decline for men of the same age was 4.1 percentage points. The reduction in inward labour migration and the lower labour force participation of Norwegians have together contributed to reducing labour force growth, and thereby curbed the increase in unemployment.

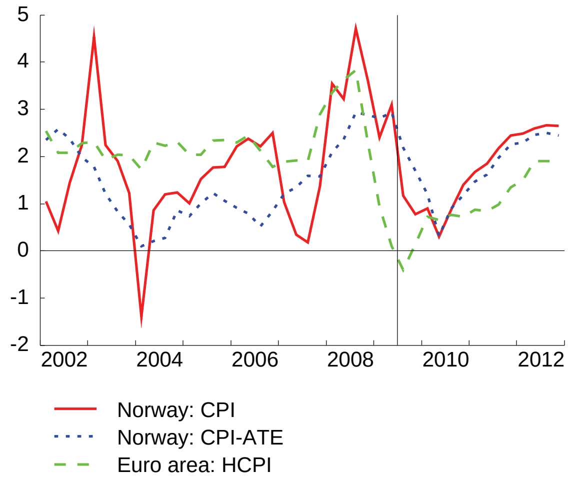
Mainland GDP will probably remain below trend throughout the projection period, and employment will therefore develop weakly. Manufacturing and construction are very cyclically sensitive industries where production is likely to continue falling. We envisage an annual average decline in the combined number of employees in these industries of around 35 000 from the peak year of 2008 to 2011. During the same period, public sector employment will grow by about 50 000. According to our projections, employment will fall in male-dominated industries, while industries that employ large groups of women will grow. Thus we expect the clear two-track developments in the labour market that we have already observed to continue. Our assumptions imply that overall employment in 2009 will be reduced by 14 000 persons, measured as an annual average. We estimate a further reduction of 16 000 in 2010. During 2010 and 2011 there will be a cyclical turnaround and output will pick up again, so employment will rise in 2011 and 2012.

The increase in total employment after 2010 will probably not be strong enough to reduce unemployment appreciably, because the labour force is also assumed to increase. However, the weak labour market implies far weaker growth in the labour force in the next few years than during the upturn lasting until 2008. From 2004 to 2008, the labour force increased by almost 210 000. By comparison, we now project that the labour force will increase by slightly over 60 000 from 2008 to 2012. Following an increase in LFS unemployment from 2.6 per cent in 2008 to an estimated 3.3 per cent in 2009, unemployment will rise to around 4 per cent in 2010 and remain there for the rest of the projection period.

Lower wage growth

The sharp contraction in the Norwegian economy through the winter half year has exerted downward pressure on wage growth. Wages per normal man-year were nonetheless 5.0 per cent higher in the first half of 2009 than in the first half of 2008. The continued relatively high wage growth must be viewed against the backdrop of the main settlement in the two-year wage agreements that has taken place during the period. By way of comparison, wage growth at the last main settlement was 5.9 per cent.

Figure 15. **Consumer price indices. Percentage growth from the same quarter previous year**



Source: Norges Bank and Statistics Norway.

In 2007 and 2008, wage growth per normal man-year was 5.6 per cent and 5.8 per cent, respectively. This is about one percentage point higher than average wage growth so far in the 2000s. The high wage growth of recent years is typical of an economic boom, when unemployment is low and business sector earnings have been high for a long time. This situation has changed in the wake of the global financial crisis. Profitability, particularly in the wage-leading manufacturing sector, is now under pressure and unemployment has risen.

The pay increases in this year’s interim wage settlement have been moderate, and wage drift in the form of bonus payments and overtime payments has declined. This brings our projection for wage growth this year down to 4.0 per cent, a bare 2 percentage points lower than for 2008. About 2½ percentage points of the 4 are attributable to the full-year effect of the pay increases granted in the course of 2008.

Over time, the basis for real wage growth lies in productivity growth and potential terms of trade gains. Terms of trade gains occur when export prices increase more than import prices. In 2008, labour productivity in private-sector mainland industries fell by over 1 per cent measured in terms of value added per man-hour. The fall reflected the fact that companies had to a large extent retained their workforce even after demand and production had fallen. This is because it takes time for companies to adapt their workforce situation to changes in demand. World market prices for many Norwegian export products also fell through 2008, and the terms of trade deteriorated. On balance, the low productivity growth and terms of trade losses have clearly weakened business sector profitability, which implies relatively low wage growth in the period ahead.

The time it takes for the wage level to adjust to poorer profitability depends on developments in unemployment. According to projections, unemployment will peak in 2011. Following relatively moderate wage growth of 3.7 per cent in 2010 and 2011, wage growth will rise to 4.2 per cent in 2012.

Thus wage growth will roughly parallel developments in the rise in prices for consumer goods, which will also slow up to and including 2010 and increase in 2011 and 2012. The parallel developments are due primarily to the fact that underlying developments in world market prices, measured in Norwegian krone, move along such a path. Real wage growth is accordingly expected to be around 2 per cent throughout the projection period, which is in line with 2008, but approximately one percentage point lower than in the cyclical expansion from 2003 to 2007.

Economic downturn and stronger krone curb inflation

For the past two years inflation, measured as the year-on-year rise in the consumer price index, adjusted for tax changes and excluding energy products (CPI-ATE), has fluctuated within the band of 1.5–3.5 per cent around Norges Bank's inflation target, after being lower for the four previous years. Inflation accelerated through spring 2009, from 2.7 per cent in April to a peak of 3.3 per cent in June. There was an unusually strong rise in air travel prices from May to June, but much of it was reversed in July. This, coupled with the effect of an unusually strong rise in the CPI-ATE from June to July last year, contributed to year-on-year inflation in July this year falling to 2.5 per cent.

The overall consumer price index (CPI), which has a bearing on developments in household purchasing power, has shown substantially wider fluctuations. The year-on-year rise in the CPI in October last year was as much as 5.5 per cent, largely as a result of high electricity prices. Since then, electricity prices have fallen steadily, and the contribution to CPI inflation of the rise in electricity prices fell by 2 percentage points from October 2008 to July this year. However, electricity prices were still higher in July than at the same time in 2008. The 12-month rise in the CPI had then dropped to 2.2 per cent.

Splitting up the CPI-ATE by supplier sector reveals lower annualised inflation through the first seven months of the year for most main groups of domestically produced goods and services. In contrast, the rise in prices for imported consumer goods increased steadily, by 1.6 percentage points from January to July. This pushed up CPI-ATE inflation by about 0.5 percentage point. This development reflects the sharp depreciation of the krone in the wake of the financial crisis last autumn. About half of the weakening of the krone was reversed in the course of the winter. Exchange rate developments affect prices for households, but it takes a good while before the effects are exhausted. Thus exchange rate changes have a substantial, but offsetting effect on Norwegian prices. Prices for imported goods declined appreciably from June to July, which may indicate that the effects of the depreciation last autumn are now being more than counterbalanced by the subsequent appreciation.

A number of factors have contributed to the slower rise in prices for goods and services produced in Norway. Growth in labour costs has been reduced, energy prices have fallen, and it must be assumed that low capacity utilisation has contributed to a narrowing of profit margins. Since interest is a cost component, the sharp fall in interest rates in itself has also contributed to lower inflation. Capacity utilisation in the Norwegian economy can be expected to remain relatively low for some time ahead. In consequence, neither wage growth nor other cost developments are likely to generate strong inflationary impulses for a while. Most uncertainty with respect to inflation in the period ahead is associated with exchange rate developments.

As a result of the global recession and the continued increase in trade with low-cost countries, inflationary impulses due to foreign finished goods will probably be moderate. This effect will be reinforced by the exchange rate, which we expect to strengthen throughout the projection period. However, we assume that commodity price developments will gradually push inflation up.

Inflation is expected to slow towards the summer of 2010. In addition to falling import prices, we expect rising productivity and slightly slower labour cost growth. The fall in energy prices will also lower prices for other goods and services. We expect the CPI-ATE to rise by an annual average of 2.4 per cent this year and 0.9 per cent next year. As the recovery takes hold, wage growth picks up and the appreciation of the krone moderates, core inflation will increase, reaching 2.4 per cent in 2012 according to projections.

Household electricity prices probably fell from July and bottomed out in August. In the same period in 2008, electricity prices climbed sharply. Forward prices in the electricity market indicate higher prices during the autumn and into 2010. However, the increase will almost certainly be far more moderate than the rise through the autumn of 2008. As a result, the year-on-year change in electricity prices will be negative from August this year, and may be as strongly negative as -20 per cent in October. Electricity prices will therefore exert strong downward pressure on the 12-month rise in the CPI for the remainder of 2009. We assume that electricity prices expressed as an annual average will fall by just under 5 per cent from 2008 to the current year, and that prices next year will remain approximately the same as in 2009. In subsequent years, we expect electricity prices to rise somewhat more than inflation.

Oil prices were halved from the third to the fourth quarter of last year, causing petrol prices to fall through the autumn of 2008. We expect oil prices to decline somewhat through the coming months, but to a far lesser extent than through the same period last year. Petrol prices therefore appear set to move the opposite way from electricity prices in the period ahead. As an annual average, we expect oil prices measured in NOK to increase weakly from 2009 to 2010, and by 10-15 per cent in each of the following two years.

Indirect taxes are assumed to be adjusted for inflation in the years ahead. In sum, we project CPI inflation at 1.9 per cent in 2009 and 0.9 per cent in 2010. During the remainder of the projection period, and given our assumptions, CPI inflation will remain 0.2 percentage point higher than CPI-ATE inflation.

Lower oil exports reduce the trade surplus

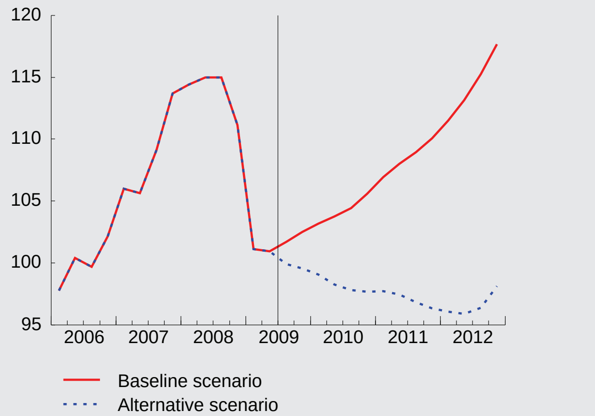
The global downturn and financial crisis caused a halt in the long-term growth of Norway's current account surplus in the second half of 2008. This year a substantial reduction in surpluses appears likely. Preliminary QNA figures for the second quarter of 2009 show a trade surplus of almost NOK 78 billion. This is approximately NOK 28 billion less than the previous quarter, and a whole NOK 54 billion less than the same quarter last year. So far this year, the surplus is NOK 183 billion, down from NOK 259 billion in the same period in 2008. A sharply reduced oil price and contained slump in the volume of oil exports are the dominant factors underlying the decline. The trade balance for traditional goods has remained largely unchanged for the past seven quarters, with a quarterly deficit of around NOK 37 billion. For each quarter in the same period, with the exception of the last two quarters of 2008, the surplus on trade of services has remained at about NOK 14 billion. Net interest and transfers, by contrast, have fluctuated quarterly between surplus and deficit for several years. Preliminary estimates indicate a surplus of NOK 18 billion in the second quarter of 2009, while the first quarter showed a deficit of NOK 30 billion.

The current account surpluses for the current quarter and the last quarter of 2009 are expected to remain at a level well below NOK 100 billion. The trade surplus for the current year is accordingly expected to be just over NOK 305 billion. This is a decline of almost NOK 190 billion, or 38 per cent, compared with the surplus in 2008. A surplus on interest and transfers is expected to bring the current account surplus to over NOK 320 billion in 2009.

Box 1. **Effects on the Norwegian economy of a more pronounced global recession**

There have been a number of indications recently that the global economy is recovering. Equity prices have surged since the beginning of the year, as have commodity prices. The fall in manufacturing production and international trade has come to a halt, and there are signs of improvement in the housing market in many countries. Highly expansionary monetary and fiscal policy has been important for the incipient turnaround, but if it is to continue it is a prerequisite that household consumption and business sector investment take over as the driving force behind growth. Government debt is increasing so much in many countries that it is not sustainable, even in the relatively short term. Banks have large unrealised losses, and are still reluctant to lend money. Given this perspective, it is quite possible to envisage a scenario where growth is considerably weaker than the one on which we have based our projections.

Figure 1. **Traditional exports. Seasonally adjusted volume indices. 2006=100**

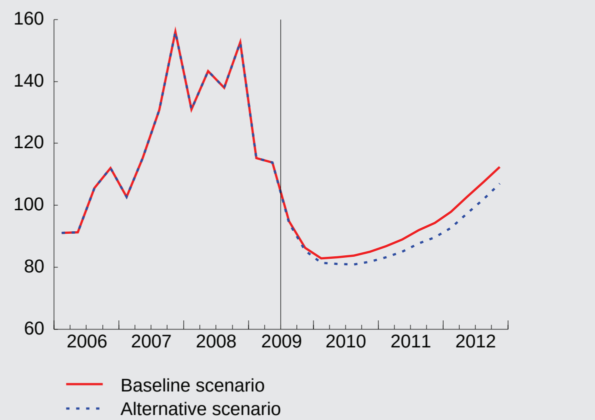


Source: Statistics Norway.

In order to estimate the consequences for the Norwegian economy of such a scenario, we have set up an alternative scenario. In it we assume zero GDP growth among Norway's trading partners from the first quarter of 2010 and for the remainder of the projection period, after a slight upswing in the second half of 2009. We have also assumed that international commodity prices will gradually fall to about 30 per cent lower than in the projection scenario through the projection period. This means, for example, an oil price of USD 60 per barrel in 2012, compared with about USD 84 in the projection scenario. Prices for manufactured products are assumed to gradually fall to 10 per cent lower in 2012 than in the projection scenario. Consumer prices in the euro area are assumed to remain at the current level for the remainder of the projection period, as opposed to total growth of 4 per cent in the projection scenario. The ECB responds to lower inflation and growth with a lower policy rate, so that three-month money market rates in the euro area fall to 0.75 per cent in 2010 and remain there for the rest of the projection period. In the projection scenario, by contrast, three-month money market rates in the euro area rise gradually from today's level of 1 per cent, to 4 per cent at the end of 2012.

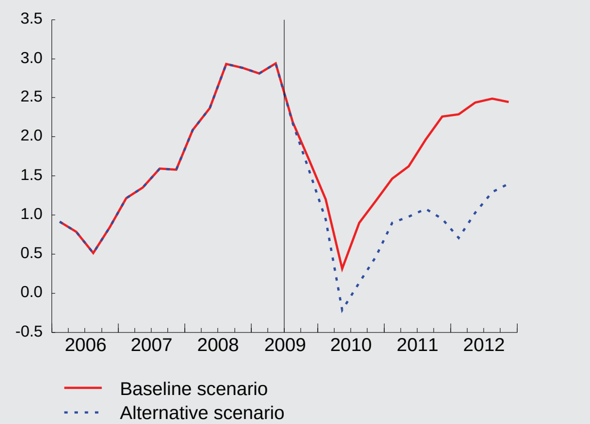
The effects on the Norwegian economy are projected with the aid of Statistics Norway's KVARTS macroeconomic model. The orientation of Norwegian fiscal policy is assumed to be the same as in the projection scenario. The krone exchange rate is determined in the model . In the alternative scenario, Norwegian money market rates are determined by a separate relationship which is estimated on the basis of Norges Bank's behaviour since the introduction of the inflation target in March 2001. The interest rate is increased if inflation (measured by the CPI-ATE) increases, and if pressures build up in the real economy. Pressures are measured by LFS unemployment, such that lower (higher) unemployment implies a higher (lower) interest rate. Interest rates in the euro area are also involved in the interest rate relationship. In isolation, a lower euro area interest rate contributes to lowering the interest rate in Norway.

Figure 2. **Manufacturing investment. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Figure 3. **Inflation (CPI-ATE) Percentage rise on same quarter previous year**



Source: Statistics Norway.

With lower demand for Norwegian export goods, exports will fall throughout the projection period rather than growing at an increasing pace from 2010 as in the projection scenario. Market growth is almost zero, so that Norwegian manufacturing steadily loses market shares, and at a somewhat faster pace than in the projection scenario. This takes place despite a weaker krone, and is due to relatively high cost inflation, so that Norwegian export prices fall less than market prices worldwide. Lower manufacturing production also implies that manufacturing investment will follow a weaker path than in the projection scenario.

Manufacturing employment falls less than production, so that labour productivity falls. This, combined with lower export prices, causes wage growth in manufacturing to slow. This feeds through to wage growth generally, since manufacturing is assumed to be the wage-leader. The result is that domestic inflation also decelerates markedly, approximately in line with what is projected for the euro area. Real wage growth remains almost unchanged in 2010, but is approximately 1 percentage point lower in 2011 and 2012. Overall employment is reduced by 31 000 up to 2012 compared with the projection scenario. However, the labour force is reduced by 16 000 as a result of low real wage growth and rising unemployment. This dampens the rise in unemployment (which will still be about 0.6 percentage point higher in 2012).

In the alternative scenario, Norwegian money market rates continue to fall up to the summer of 2010, to 1 per cent, in response to lower interest rates abroad, higher unemployment and lower inflation. This will be followed by a slight increase before they level off at around 1.5 per cent in 2011. In the projection scenario, however, the three-month money market rate rises to 6 per cent in 2012. The krone appreciates less, and is weaker than in the projection scenario throughout the projection period. This is due to lower oil prices and to Norwegian interest rates falling more than interest rates abroad. Inflation is curbed to the same extent in Norway and abroad.

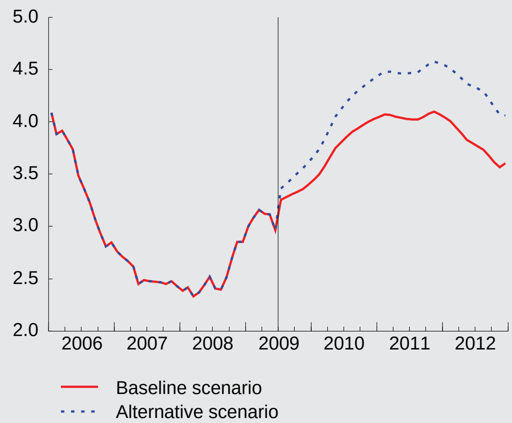
Effects of lower global demand. Deviation from baseline scenario unless otherwise indicated

	2009	2010	2011	2012
Household consumption	0.0	0.0	0.5	1.3
Mainland investment	-0.1	-0.5	-0.7	-0.4
Manufacturing	-0.3	-3.0	-4.6	-5.1
Housing	0.0	0.0	0.3	1.6
Exports, traditional goods	-1.1	-6.0	-10.5	-16.0
Mainland GDP	-0.2	-0.9	-1.3	-1.5
Manufacturing	-0.5	-3.4	-5.6	-7.4
Employment (in 1000s)	-2	-14	-23	-31
Labour supply (in 1000s)	0	-6	-12	-17
Unemployment rate (level)	0.1	0.3	0.4	0.6
Wages	0.0	-1.0	-2.8	-5.1
Consumer price index	0.0	-0.7	-1.7	-3.0
Export prices, traditional goods	-1.8	-12.1	-17.5	-17.7
House prices	0.0	-0.7	-0.7	0.5
Household real disposable income	-0.1	0.0	0.4	0.6
Money market interest rate (level)	-0.1	-1.3	-2.7	-4.3
Import-weighted krone exchange rate (44 countries)	0.1	1.0	1.9	4.5
MEMO:				
Export market indicator	0.0	-1.0	-4.6	-11.2
Consumer price inflation in the euro area	0.0	-0.5	-1.5	-3.2
3-month interest rate in euro area (level)	0.0	-0.7	-1.6	-2.7
Oil price (in USD)	0.0	-4.5	-13.7	-23.8

Household consumption growth is somewhat higher than in our projection scenario in 2010 and 2011. This is due to both higher real disposable income and lower real interest rates. In isolation, this generates positive demand impulses to Norwegian production. The effects on housing investment and house prices are small.

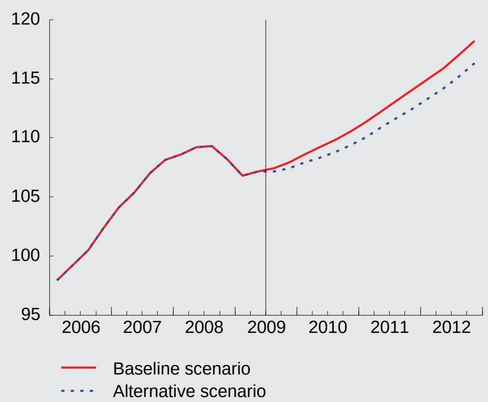
The alternative scenario results in a more pronounced recession for the Norwegian economy as well. Mainland GDP growth is appreciably lower than in the projection scenario, particularly in 2010. Since consumer growth is higher, the decline in mainland GDP will be substantially smaller than the decline in manufacturing.

Figure 4. **Unemployment. Seasonally adjusted and smoothed**



Source: Statistics Norway.

Figur 5. **Mainland GDP. Seasonally adjusted volume indices. 2006=100**



Source: Statistics Norway.

Box 2. **The effect of the expansionary fiscal policy on developments in the Norwegian economy**

In the first half of 2009, fiscal policy was made more expansionary in order to dampen the effects of the financial crisis on the Norwegian economy. We shall attempt here to establish what effect this will have on economic developments in the projection period 2009-2012. In order to answer the question, we must first consider how fiscal policy might have been. There are a number of possibilities. A cyclically neutral policy is one starting point. In such a policy, emphasis might have been placed on allowing growth in public sector purchases of goods and services to shadow trend growth in mainland GDP, while leaving direct and indirect taxes unchanged in real terms and transfers to take place according to existing rules. Alternatively, fiscal policy might be oriented to comply with the 4 per cent path prescribed by the fiscal rule. Since we are focusing here on cyclical conditions, we base ourselves on a variant of the first possibility.

For 2009, we base ourselves on the projections in the National Budget for 2009. Here growth in public consumption and gross investment are estimated at 3.4 per cent and 2.7 per cent, respectively, in 2009. This implies excluding the allocations in Storting Proposition no. 37 (2008-2009) Changes in the Government Budget for 2009 with measures to secure employment. For 2010-2012, we allow growth in general government consumption and investment to be 3 per cent on the whole. This means that there is a slight tightening of consumption growth in the alternative scenario in 2010, and a substantial tightening of investment that year, whereas the growth projections for 2011 and 2012 are roughly as in the projection scenario.

To illustrate the effects of the expansionary fiscal policy in isolation, we use a model version of Statistics Norway's KVARTS macroeconomic model in which neither the interest rate nor the exchange rate is changed. If, alternatively, we had allowed both the interest rate and the exchange rate to respond, the effect on employment and GDP would have been less than shown here.

The effects of the expansionary fiscal policy compared with a cyclically neutral scenario, as defined above, are shown in the table. In 2009, mainland demand increases by slightly more than NOK 20.5 billion, of which over NOK 16.5 million is generated by fiscal policy. A third of this increased demand is met by imports. Employment increases gradually as a result of the expansionary policy. The increase in employment in 2009 is 14 000, while unemployment falls by 8 000 persons. As a result of increased activity and improved job opportunities, the supply of labour is also higher. With today's unemployment level, and not least unemployment in 2010-2012, the effect of lower unemployment on the wage level is not very large, since the unemployment in the projection scenario is relatively high (about 4 per cent). The wage level increases somewhat nonetheless, causing consumer and export prices to rise somewhat, which reduces exports and increases import shares. Consumer price inflation edges up by about 0.1 percentage point each year, while wage growth increases by 0.3 percentage point on average, resulting in some increase in real wages. This stimulates consumption and housing investment, and to some extent also the labour supply, thereby further reducing the effect of expansionary fiscal policy on unemployment.

Household real income increases as a result of higher real wages and employment. Some of this is also due to the fact that indexing, for example of the basic amount in the National Insurance System, results in higher real income for pensioners. Employment increases somewhat, contributing positively to income. Higher real income causes house prices to rise more, which in turn increases household wealth. This stimulates consumption and housing investment. Increased economic activity also boosts business investment. This improves productivity and curbs the rise in prices for products from sheltered industries.

The unemployment rate shrank 0.3 percentage point in the current year, and further to half a percentage point at the end of the period. Employment increases by about 25 000 in 2011 and 2012. About half of this is provided by an increased labour supply and the remainder by reduced unemployment. The increase in demand leads to an increase in mainland GDP which is roughly equivalent to the impetus generated by fiscal policy. Exports fall somewhat, but moderately, since the increase in the cost level is also moderate. Moreover, the analysis is limited to the period up to 2012. If fiscal policy should become permanently more expansionary, the long-term negative effects on the internationally exposed business sector would be greater than those that emerge here.

If Norges Bank should decide to offset the expansionary fiscal policy by increasing the policy rate, the overall expansionary effects would be clearly more limited. Household demand in particular would be dampened, and a stronger krone exchange rate would have a negative impact on internationally exposed industries.

Effects of expansionary fiscal policy. Deviation from baseline scenario unless otherwise indicated

	2009	2010	2011	2012
Household consumption	0.3	0.7	1.0	1.2
Mainland business investment	1.0	1.9	2.3	2.5
Housing investment	0.0	0.2	0.4	0.6
Exports, traditional goods	0.0	0.0	-0.1	-0.1
Imports	1.1	1.9	2.1	2.3
Mainland GDP	0.8	1.3	1.5	1.6
Industries	0.9	1.5	1.6	1.7
Employment	0.5	0.8	0.9	1.0
Unemployment rate (level)	-0.3	-0.4	-0.5	-0.5
Wages	0.3	0.6	0.9	1.3
Consumer price index	0.1	0.1	0.2	0.3
House prices	0.2	0.7	1.3	2.0
Household real disposable income	0.5	0.9	1.2	1.4
MEMO:				
General government consumption	2.2	2.7	2.9	3.0
General government investment	8.9	17.0	17.1	17.9

Tabell 4. **National accounts: Final expenditure and gross domestic product. At constant 2006 prices. Million kroner**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.3	07.4	08.1	08.2	08.3	08.4	09.1	09.2
Final consumption expenditure of households and NPISHs	934 732	947 510	234 861	238 187	238 903	237 991	235 841	234 129	233 137	234 530
Household final consumption expenditure	898 292	909 843	225 700	228 982	229 605	228 542	226 420	224 659	223 603	224 882
Goods	472 644	471 758	119 007	120 365	119 647	118 989	117 016	115 369	114 423	115 798
Services	393 166	400 380	98 872	99 703	99 723	100 071	100 155	100 402	100 839	101 202
Direct purchases abroad by resident households	57 847	62 527	14 110	15 405	16 668	15 873	15 196	14 974	13 806	13 297
Direct purchases by non-residents	-25 365	-24 821	-6 290	-6 491	-6 434	-6 390	-5 947	-6 087	-5 466	-5 414
Final consumption expenditure of NPISHs	36 440	37 666	9 161	9 205	9 299	9 449	9 421	9 471	9 534	9 648
Final consumption expenditure of general government	427 109	443 390	107 530	108 307	109 363	110 047	111 187	112 748	114 304	116 567
Final consumption expenditure of central government	220 794	227 408	55 238	55 688	56 183	56 504	56 894	57 813	58 594	60 263
Central government, civilian	190 923	196 481	47 765	48 164	48 563	48 844	49 199	49 860	50 183	51 670
Central government, defence	29 870	30 927	7 474	7 525	7 619	7 660	7 695	7 953	8 411	8 594
Final consumption expenditure of local government	206 316	215 982	52 291	52 618	53 180	53 543	54 293	54 935	55 711	56 303
Gross fixed capital formation	459 610	477 576	117 355	121 594	118 108	118 559	120 109	120 295	114 339	114 502
Extraction and transport via pipelines	100 726	107 417	26 427	26 122	25 966	26 184	26 923	28 315	31 207	29 410
Service activities incidential to extraction	938	-39	233	45	90	58	-120	-67	-97	13
Ocean transport	20 767	24 860	7 800	3 742	6 275	6 030	6 243	6 354	4 116	5 270
Mainland Norway	337 180	345 338	82 895	91 684	85 777	86 287	87 063	85 694	79 113	79 810
Mainland Norway excluding general government	270 862	275 160	68 229	71 257	69 768	69 752	67 809	67 446	62 193	61 718
Industries	175 663	187 656	44 383	47 831	47 066	47 513	45 946	46 794	42 218	42 686
Manufacturing and mining	30 584	34 225	7 930	9 450	7 940	8 682	8 354	9 249	6 980	6 892
Production of other goods	29 198	32 112	7 809	7 186	8 148	8 430	8 242	7 287	7 140	7 721
Services	115 881	121 318	28 644	31 194	30 978	30 401	29 349	30 258	28 097	28 072
Dwellings (households)	95 199	87 505	23 846	23 426	22 702	22 239	21 863	20 653	19 975	19 032
General government	66 318	70 178	14 666	20 427	16 009	16 536	19 254	18 248	16 920	18 092
Changes in stocks and statistical discrepancies	36 585	51 748	7 212	10 727	13 876	14 495	17 351	6 118	4 595	4 041
Gross capital formation	496 196	529 324	124 567	132 321	131 984	133 054	137 460	126 413	118 934	118 543
Final domestic use of goods and services	1 858 038	1 920 224	466 957	478 814	480 250	481 092	484 489	473 290	466 375	469 640
Final demand from Mainland Norway	1 699 022	1 736 238	425 286	438 177	434 043	434 325	434 091	432 571	426 554	430 906
Final demand from general government	493 427	513 568	122 196	128 733	125 372	126 583	130 441	130 996	131 224	134 659
Total exports	1 027 757	1 041 971	256 716	260 017	261 820	262 738	255 154	261 185	246 481	239 277
Traditional goods	295 052	309 197	74 041	77 131	77 632	78 006	78 006	75 411	68 611	68 500
Crude oil and natural gas	485 321	477 994	122 041	118 968	120 930	120 878	113 796	121 588	117 421	111 876
Ships, oil platforms and planes	11 920	13 385	3 286	2 372	2 363	3 172	4 396	3 455	4 439	2 395
Services	235 465	241 395	57 348	61 546	60 895	60 682	58 957	60 730	56 010	56 506
Total use of goods and services	2 885 795	2 962 194	723 674	738 831	742 070	743 830	739 643	734 475	712 856	708 917
Total imports	658 538	687 451	164 149	173 172	174 318	172 767	173 627	166 090	148 948	152 217
Traditional goods	434 511	446 054	107 382	111 560	115 086	113 042	111 642	105 870	97 473	98 619
Crude oil and natural gas	5 397	3 235	768	1 616	548	701	652	1 339	586	703
Ships, oil platforms and planes	19 847	29 757	5 974	7 739	6 683	7 041	9 454	6 580	4 611	5 648
Services	198 784	208 404	50 025	52 257	52 001	51 983	51 879	52 302	46 277	47 247
Gross domestic product (market prices)	2 227 256	2 274 744	559 525	565 659	567 752	571 063	566 015	568 385	563 908	556 700
Gross domestic product Mainland Norway (market prices)	1 676 943	1 719 891	422 474	427 022	428 738	431 174	431 572	427 135	421 650	423 011
Petroleum activities and ocean transport	550 313	554 853	137 051	138 637	139 014	139 889	134 444	141 250	142 258	133 689
Mainland Norway (basic prices)	1 421 656	1 465 989	358 075	362 442	364 418	366 422	368 826	365 600	360 366	361 207
Mainland Norway excluding general government	1 117 656	1 151 699	281 638	285 640	286 318	288 762	289 842	286 269	280 885	281 048
Manufacturing and mining	206 270	212 223	51 538	52 445	52 383	54 414	53 479	51 975	50 008	49 278
Production of other goods	174 376	178 040	44 662	43 691	43 957	44 749	45 554	43 886	42 219	40 664
Services incl. dwellings (households)	737 010	761 436	185 438	189 504	189 978	189 599	190 810	190 409	188 659	191 106
General government	304 000	314 290	76 437	76 802	78 100	77 660	78 983	79 331	79 480	80 158
Taxes and subsidies products	255 287	253 902	64 399	64 580	64 321	64 752	62 746	61 534	61 284	61 805

Source: Statistics Norway.

Table 5. **National accounts: Final expenditure and gross domestic product. At constant 2006 prices. Percentage change from the previous period**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.3	07.4	08.1	08.2	08.3	08.4	09.1	09.2
Final consumption expenditure of households and NPISHs	6.0	1.4	1.0	1.4	0.3	-0.4	-0.9	-0.7	-0.4	0.6
Household final consumption expenditure	6.1	1.3	1.1	1.5	0.3	-0.5	-0.9	-0.8	-0.5	0.6
Goods	7.6	-0.2	1.5	1.1	-0.6	-0.6	-1.7	-1.4	-0.8	1.2
Services	4.0	1.8	1.0	0.8	0.0	0.3	0.1	0.2	0.4	0.4
Direct purchases abroad by resident households	7.8	8.1	-2.6	9.2	8.2	-4.8	-4.3	-1.5	-7.8	-3.7
Direct purchases by non-residents	4.8	-2.1	0.4	3.2	-0.9	-0.7	-6.9	2.4	-10.2	-0.9
Final consumption expenditure of NPISHs	4.1	3.4	0.5	0.5	1.0	1.6	-0.3	0.5	0.7	1.2
Final consumption expenditure of general government	3.4	3.8	1.3	0.7	1.0	0.6	1.0	1.4	1.4	2.0
Final consumption expenditure of central government	2.0	3.0	0.5	0.8	0.9	0.6	0.7	1.6	1.3	2.8
Central government, civilian	1.7	2.9	0.5	0.8	0.8	0.6	0.7	1.3	0.6	3.0
Central government, defence	3.7	3.5	0.5	0.7	1.3	0.5	0.5	3.4	5.8	2.2
Final consumption expenditure of local government	5.0	4.7	2.2	0.6	1.1	0.7	1.4	1.2	1.4	1.1
Gross fixed capital formation	8.4	3.9	4.2	3.6	-2.9	0.4	1.3	0.2	-5.0	0.1
Extraction and transport via pipelines	5.5	6.6	5.0	-1.2	-0.6	0.8	2.8	5.2	10.2	-5.8
Service activities incidential to extraction	-71.7	-104.2	-56.9	-80.5	97.4	-35.4	-307.2	-44.2	45.1	-113.3
Ocean transport	22.4	19.7	73.5	-52.0	67.7	-3.9	3.5	1.8	-35.2	28.0
Mainland Norway	9.3	2.4	0.6	10.6	-6.4	0.6	0.9	-1.6	-7.7	0.9
Mainland Norway excluding general government	9.7	1.6	2.8	4.4	-2.1	0.0	-2.8	-0.5	-7.8	-0.8
Industries	12.2	6.8	5.1	7.8	-1.6	0.9	-3.3	1.8	-9.8	1.1
Manufacturing and mining	25.3	11.9	13.5	19.2	-16.0	9.3	-3.8	10.7	-24.5	-1.3
Production of other goods	10.3	10.0	4.2	-8.0	13.4	3.5	-2.2	-11.6	-2.0	8.1
Services	9.7	4.7	3.3	8.9	-0.7	-1.9	-3.5	3.1	-7.1	-0.1
Dwellings (households)	5.3	-8.1	-1.2	-1.8	-3.1	-2.0	-1.7	-5.5	-3.3	-4.7
General government	7.9	5.8	-8.8	39.3	-21.6	3.3	16.4	-5.2	-7.3	6.9
Changes in stocks and statistical discrepancies	-28.2	41.4	-27.9	48.7	29.4	4.5	19.7	-64.7	-24.9	-12.0
Gross capital formation	4.4	6.7	1.6	6.2	-0.3	0.8	3.3	-8.0	-5.9	-0.3
Final domestic use of goods and services	5.0	3.3	1.2	2.5	0.3	0.2	0.7	-2.3	-1.5	0.7
Final demand from Mainland Norway	6.0	2.2	1.0	3.0	-0.9	0.1	-0.1	-0.4	-1.4	1.0
Final demand from general government	4.0	4.1	0.0	5.3	-2.6	1.0	3.0	0.4	0.2	2.6
Total exports	2.5	1.4	1.5	1.3	0.7	0.4	-2.9	2.4	-5.6	-2.9
Traditional goods	8.7	4.8	3.3	4.2	0.6	0.5	0.0	-3.3	-9.0	-0.2
Crude oil and natural gas	-2.6	-1.5	2.6	-2.5	1.6	0.0	-5.9	6.8	-3.4	-4.7
Ships, oil platforms and planes	-5.9	12.3	-13.6	-27.8	-0.4	34.2	38.6	-21.4	28.5	-46.0
Services	7.0	2.5	-2.0	7.3	-1.1	-0.4	-2.8	3.0	-7.8	0.9
Total use of goods and services	4.1	2.6	1.3	2.1	0.4	0.2	-0.6	-0.7	-2.9	-0.6
Total imports	7.5	4.4	1.5	5.5	0.7	-0.9	0.5	-4.3	-10.3	2.2
Traditional goods	6.7	2.7	-0.2	3.9	3.2	-1.8	-1.2	-5.2	-7.9	1.2
Crude oil and natural gas	145.3	-40.1	-63.5	110.3	-66.1	28.1	-7.0	105.2	-56.3	20.1
Ships, oil platforms and planes	34.4	49.9	80.6	29.6	-13.7	5.4	34.3	-30.4	-29.9	22.5
Services	5.4	4.8	2.6	4.5	-0.5	0.0	-0.2	0.8	-11.5	2.1
Gross domestic product (market prices)	3.1	2.1	1.3	1.1	0.4	0.6	-0.9	0.4	-0.8	-1.3
Gross domestic product Mainland Norway (market prices)	6.1	2.6	1.5	1.1	0.4	0.6	0.1	-1.0	-1.3	0.3
Petroleum activities and ocean transport	-4.9	0.8	0.5	1.2	0.3	0.6	-3.9	5.1	0.7	-6.0
Mainland Norway (basic prices)	5.9	3.1	1.4	1.2	0.5	0.6	0.7	-0.9	-1.4	0.2
Mainland Norway excluding general government	6.7	3.0	1.6	1.4	0.2	0.9	0.4	-1.2	-1.9	0.1
Manufacturing and mining	5.4	2.9	0.9	1.8	-0.1	3.9	-1.7	-2.8	-3.8	-1.5
Production of other goods	7.2	2.1	2.1	-2.2	0.6	1.8	1.8	-3.7	-3.8	-3.7
Services incl. dwellings (households)	6.9	3.3	1.6	2.2	0.3	-0.2	0.6	-0.2	-0.9	1.3
General government	3.2	3.4	0.9	0.5	1.7	-0.6	1.7	0.4	0.2	0.9
Taxes and subsidies products	7.1	-0.5	2.2	0.3	-0.4	0.7	-3.1	-1.9	-0.4	0.9

Source: Statistics Norway.

Table 6. **National accounts: Final expenditure and gross domestic product. Price indices. 2006=100**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.3	07.4	08.1	08.2	08.3	08.4	09.1	09.2
Final consumption expenditure of households and NPISHs	100.7	104.6	100.4	101.6	103.0	103.8	105.2	106.4	106.5	107.5
Final consumption expenditure of general government	104.7	110.6	104.8	106.5	108.0	109.4	111.7	113.1	114.5	114.8
Gross fixed capital formation	105.4	110.8	106.5	106.4	107.8	109.9	112.5	113.2	113.7	113.6
Mainland Norway	105.1	110.0	106.1	106.2	107.6	109.1	111.6	111.7	112.7	112.6
Final domestic use of goods and services	103.0	107.0	102.4	102.8	106.0	106.1	107.3	109.4	110.6	110.0
Final demand from Mainland Norway	102.6	107.2	102.6	103.8	105.1	106.3	108.1	109.2	109.8	110.4
Total exports	101.4	117.6	100.0	109.0	112.8	120.9	123.0	113.1	101.7	100.7
Traditional goods	102.5	104.9	100.8	101.5	100.2	103.6	110.5	104.7	98.9	98.1
Total use of goods and services	102.4	110.8	101.6	105.0	108.4	111.3	112.7	110.7	107.5	106.9
Total imports	103.1	106.6	102.9	101.9	104.1	105.3	108.2	109.0	106.8	105.9
Traditional goods	103.7	107.1	103.5	102.3	104.4	106.7	109.3	108.1	107.4	105.5
Gross domestic product (market prices)	102.2	112.0	101.2	105.9	109.8	113.1	114.1	111.3	107.7	107.2
Gross domestic product Mainland Norway (market prices)	102.8	106.4	102.2	103.4	104.6	105.5	107.0	108.3	108.5	110.0

Source: Statistics Norway.

Table 7. **National accounts: Final expenditure and gross domestic product. Price indices. Percentage change from previous period**

	Unadjusted		Seasonally adjusted							
	2007	2008	07.3	07.4	08.1	08.2	08.3	08.4	09.1	09.2
Final consumption expenditure of households and NPISHs	0.7	3.9	0.0	1.2	1.3	0.8	1.3	1.2	0.1	0.9
Final consumption expenditure of general government	4.7	5.6	0.6	1.6	1.4	1.3	2.2	1.3	1.2	0.3
Gross fixed capital formation	5.4	5.1	1.3	-0.1	1.3	2.0	2.4	0.6	0.5	-0.1
Mainland Norway	5.1	4.7	1.7	0.2	1.3	1.4	2.3	0.1	0.9	-0.1
Final domestic use of goods and services	3.0	3.9	-0.1	0.3	3.2	0.0	1.2	2.0	1.1	-0.5
Final demand from Mainland Norway	2.6	4.5	0.5	1.1	1.3	1.1	1.7	1.0	0.5	0.6
Total exports	1.4	16.0	-0.2	9.0	3.5	7.1	1.8	-8.0	-10.1	-0.9
Traditional goods	2.5	2.3	-4.1	0.8	-1.3	3.4	6.6	-5.2	-5.5	-0.9
Total use of goods and services	2.4	8.1	-0.1	3.3	3.3	2.7	1.3	-1.8	-2.9	-0.6
Total imports	3.1	3.4	-1.5	-1.0	2.2	1.2	2.8	0.7	-2.0	-0.8
Traditional goods	3.7	3.2	-1.9	-1.2	2.1	2.2	2.4	-1.1	-0.6	-1.7
Gross domestic product (market prices)	2.2	9.6	0.3	4.7	3.6	3.1	0.9	-2.5	-3.2	-0.5
Gross domestic product Mainland Norway (market prices)	2.8	3.5	-0.1	1.3	1.1	0.8	1.4	1.3	0.1	1.4

Source: Statistics Norway.